

# ***Legislative Proposals Under Consideration***

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and  
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**Presented to the  
Revenue Stabilization and Tax Policy Committee**

**Fourth Meeting in 2009  
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## ***Legislative Proposals Under Consideration***

### **Overview**

- **Today we will present one tax and seven MVD proposals:**
  - **Personal Income Tax (PIT) simplification;**
  - **Technical changes to the Motor Vehicle Code;**
  - **Allow Driver's Licenses and Identification Cards to be renewed via internet or mail;**
  - **Clarify expiration dates for Driver's Licenses of individuals under age 21;**
  - **Require a New Mexico Driver's License to be obtained within 30 days of establishing residency;**
  - **Cancel Ignition Interlock Driver's License for noncompliance;**
  - **Reform the "Drive Insured" program; and**
  - **Update and clarify rules for offsite sales of vehicles and RVs**
- **The Governor has authorized TRD to prepare these proposals for introduction in the 2010 Legislative Session and to seek sponsors for them**
- **The Legislative Council Service is still preparing drafts, but we wanted to present these proposals today in order to allow interested parties time to comment on them before the Committee considers legislation for its endorsement**

## *Legislative Proposals Under Consideration*

### **PIT Simplification**

- **This draft legislation (LCS # .179321.1SA) would:**
  - 1. Simplify the personal income tax, helping New Mexico's taxpayers save time and money filing their State income tax returns;**
  - 2. Make the income tax fairer by insuring that taxpayers are not unfairly taxed by inflation;**
  - 3. Update the Income Tax Act, removing obsolete language and clarifying definitions and rules; and**
  - 4. Maintain fiscal responsibility through a design that is revenue neutral over the 2011-2014 forecast period and thereafter**
- **This legislation is very similar to the legislation which was endorsed by this Committee, HB-262 (Rep. Sandoval), which passed the House and passed the Senate Corporations and Transportation Committee (without recommendation)**
- **However, this draft legislation differs importantly in that it:**
  - 1. Does not include any new credits but achieves the same simplification results as HB-262; and**
  - 2. Provides indexing for inflation in a manner that will not lose revenue**

## *Legislative Proposals Under Consideration*

### **PIT Simplification – Cont.**

#### **Simplification**

- **“Tax Table Income” is defined to be adjusted gross income (AGI) plus adjustments and less exemptions and deductions except the standard deduction, personal exemptions and the low- and middle-income exemption**
- **The phase out of the low- and middle- income exemption is based on Tax Table Income rather than AGI**
- **The Look-Up Tables could be based on Tax Table Income**
  - **These new Look-Up Tables will incorporate the standard deduction, personal exemption and the low- and middle-income exemption, as well as tax rates**
  - **With these new Look-Up Tables, most taxpayers will not need to do any calculations in order to determine their income tax**
  - **Taxpayers will be able to find their tax from a table using only their filing status, number of personal exemptions and federal AGI**
- **The definition of Modified Gross Income (MGI) and LICTR would be simplified**
- **The simplification achieved by the proposal is illustrated by the PIT tax forms on the following two pages**

**2008 PIT-1 NEW MEXICO PERSONAL INCOME TAX**

For the year January 1 - December 31, 2008,

or other fiscal year beginning \_\_\_\_\_, ending \_\_\_\_\_.

If amending use Form 2008 PIT-X.

2008 PIT-1, PAGE 1  
39 BARCODE☐ Check this box if address is new or changed.

Print your name (first, middle, last)

Print your spouse's name (first, middle, last) Include spouse if married filing separately.

Mailing Address

City, State and ZIP Code

**1. SOCIAL SECURITY NUMBER**Residency status: complete  
for each taxpayer. Enter  
"R" if RESIDENT;  
"N" if NON-RESIDENT;  
"F" if FIRST-YEAR RES.;  
"P" if PART-YEAR RES..Check if taxpayer or spouse  
named on the return is deceased.  
Enter date of death.2. ☐ ☐ **EXEMPTIONS** - Number of Qualified Exemptions.  
If you are a dependent of another taxpayer, enter 00.3. ☐ **EXTENSION OF TIME TO FILE** - Mark the box if  
you have a federal or state extension, and enter  
extension date.4. ☐ Check this box if federal Form(s)  
8886, *Reportable Transaction*  
*Disclosure Statement*, is required  
to be attached.**5. FILING STATUS - Check only one box below.**

- ☐ (1) Single
- ☐ (2) Married filing jointly
- ☐ (3) Married filing separately (Enter spouse's social security number above)
- ☐ (4) Head of household (Enter name of person qualifying you as head of household if that person is not counted as a qualified exemption on your federal return.)
- ☐ (5) Qualifying widow(er) with dependent child

**6. DEPENDENTS: As listed on your federal return**

(Report additional dependents on Schedule PIT-S)

First name	Last name	Dependent's SSN	Date of birth (MM/DD/CCYY)
			/ /
			/ /
			/ /
			/ /
			/ /

7. **FEDERAL ADJUSTED GROSS INCOME** .....  
(From line 38 of federal Form 1040, line 22 of Form 1040A or line 4 of Form 1040EZ)8. Additions to federal income (From line 4 of PIT-ADJ; **attach PIT-ADJ**).....~~9. Federal standard or itemized deduction amount (From line 40 of federal Form 1040, line 24 of Form 1040A or line 5 of Form 1040EZ).....~~~~9a. Check here if you itemized.....~~~~9b. Check here if you checked box 20a on federal Form 1040, or box 22a on federal Form 1040A.....~~~~10. Federal exemption amount (From line 42 of federal Form 1040, line 26 of Form 1040A, or  
leave blank if you filed Form 1040EZ).....~~~~11. New Mexico low- and middle-income tax exemption (See PIT-1 instructions).....~~12. Deductions/Exemptions from federal income (Line 20 of PIT-ADJ; **attach PIT-ADJ**).....~~13. Medical care expense deduction (See PIT-1 instructions).....~~~~13a. Unreimbursed and uncompensated medical care expenses.....  
(You must complete both lines 13 and 13a as the deduction will be denied.)~~14. **NEW MEXICO TAX TABLE INCOME** (Add lines 7 and 8, then subtract lines 9, 10, 11, 12 and 13).....

15. Tax on amount on line 14.....

If from the Look up Tables, enter "L". If from line 15 of PIT-B, enter "B"..... ☐~~16. Additional amount for tax on lump sum distributions (See PIT-1 instructions).....~~17. Credit for taxes paid to another state. You must have been a New Mexico resident during  
all or part of the year. (See PIT-1 instructions. **Include a copy of other state's return.**).....18. Non-refundable credits from Schedule PIT-CR (Line 16 of PIT-CR; **attach PIT-CR**).....19. **NET NEW MEXICO INCOME TAX** (Add lines 15 and 16, then subtract lines 17 and 18).....  
(Cannot be less than zero.)

7		00
8		00
12		00
14		00
15		00
17		00
18		00
19		00

Continue on the next page.

2008 PIT-RC  
NEW MEXICO REBATE AND CREDIT SCHEDULE

2008 PIT-RC, PAGE 1  
BARCODE

This schedule may be used by individuals who qualify for one or more refundable rebates and credits offered by New Mexico. Include Schedule PIT-RC with your Personal Income Tax Return, Form PIT-1.

Print your name (first, middle, last)

YOUR SOCIAL SECURITY NUMBER

**SECTION I: QUALIFICATIONS FOR REBATES AND CREDITS REPORTED IN SECTIONS II THROUGH V.** Complete Section I to claim the following rebates and credits in Sections II through V. To claim any refundable tax credits in Section VI, you do not need to complete Section I.

Persons with Modified Gross Income of:

**\$16,000 or less who are age 65 or older** may qualify for the **Property Tax Rebate**.

**\$27,248 or less** may qualify for the **New Mexico Child Day Care Credit**.

**\$22,000 or less** may qualify for the **Low Income Comprehensive Tax Rebate**.

**\$24,000 or less who live in Los Alamos County ONLY** may qualify for a **Low Income Property Tax Rebate**.

READ REBATE AND CREDIT SCHEDULE INSTRUCTIONS FOR COMPLETE ELIGIBILITY REQUIREMENTS.

- A. Were you a resident of New Mexico during any portion of the tax year? YES ☐ NO ☐
- B. Were you physically present in New Mexico for at least six months in 2008? YES ☐ NO ☐
- C. Were you a dependent of another taxpayer for income tax purposes in 2008? YES ☐ NO ☐

**INMATE OF PUBLIC INSTITUTION**

Check the appropriate box(es) if:

☐ TAXPAYER or ☐ SPOUSE  
was an inmate of a public institution in 2008  
for a period of more than six months.

00

**CALCULATE ALLOWABLE HOUSEHOLD MEMBERS AND EXTRA EXEMPTIONS**

1. Number of exemptions from line 2 of Form PIT-1.....	1	
2. a. Enter number of household members who DO NOT qualify. If all exemptions qualify, leave blank. (See PIT-RC instructions).....	2a -	
b. Subtract 2a from 1. Number of allowable household members.....	2b =	
c. Extra Exemption: Check box if you are blind : <input type="checkbox"/> (If Married Filing Jointly) if your spouse is blind: <input type="checkbox"/> Add the number of boxes checked. Enter here.....	2c +	
d. Add lines 2b and 2c. ....	2d =	
e. If you are 65 or older enter "2".....	2e +	
f. If Married Filing Jointly and your spouse is 65 or older enter "2".....	2f +	
g. Add lines 2d, 2e and 2f. ....	2g =	
h. If you checked filing status (3) Married Filing Separately on your Form PIT-1, enter the number of exemptions your spouse claimed on line 2g of his or her PIT-RC if any. ....	2h +	
3. Add lines 2g and 2h. Enter here and on line 13a on page 2 of this form.....	3 =	

**CALCULATE MODIFIED GROSS INCOME** - Modified Gross Income, generally, is all income of the taxpayer and household members, both taxable and nontaxable, and undiminished by losses. See instructions for certain types of income that do not have to be included in modified gross income.

**NOTE:** If Married Filing Separately, be sure to include spouse's income.

4. <del>[Federal adjusted gross income]</del> .....	4		00
5. Social Security benefits, pensions, annuities and Railroad Retirement. <del>[Benefits not included in AGI]</del> .....	+	5	00
<del>[6. Additions to federal income (From line 4 of PIT-ADJ; attach PIT-ADJ )</del>			
<del>6. Unemployment and Workers' Compensation benefits.....</del>	+	6	00
<del>7. Public assistance, TANF, welfare benefits and Supplemental Security Income (SSI).....</del>	+	7	00
<del>8. Net profit from business, farm or rentals. If a loss, enter zero. Do not enter a negative number. ....</del>	+	8	00
<del>9. Capital gains undiminished by capital losses.....</del>	+	9	00
<del>10. Gifts of cash or marketable tangible items received. (Must be given a reasonable value.).....</del>	+	10	00
<del>11. All other income such as interest, dividends, gambling winnings, insurance settlements, scholarships, grants, VA benefits, trust income and inheritance, alimony and child support.....</del>	+	11	00
12. Modified Gross Income (Add lines 4 through 11) Enter total on line 12 and on line 13 of page 2. <del>(Must equal or exceed Federal Adjusted Gross Income from line 7 of Form PIT-1.).....</del>	=	12	00

## *Legislative Proposals Under Consideration*

### **PIT Simplification – Cont.**

#### **Indexing for Inflation**

- **Currently, our Personal Income Tax “piggybacks” on the federal standard deduction and personal exemption amounts, which are adjusted (indexed) annually for inflation**
- **However, PIT rate brackets, the low- and middle-income exemption and LICTR are not indexed for inflation**
  - **As a result, these components of the income tax lose value over time and taxes are increased simply due to inflation**
  - **An example provided at the end of this presentation illustrates how inflation reduces a taxpayer’s purchasing power simply through its effect on tax provisions**
- **The proposal would continue to inflation-adjust the standard deduction and personal exemption amounts for inflation, but add adjustments for the PIT rate brackets, the low- and middle-income exemption and LICTR**
- **The amount of the inflation adjustment for all of these provisions would be the percentage change in the Consumer Price Index (CPI) less 1% (“CPI - 1”)**

## ***Legislative Proposals Under Consideration***

### **PIT Simplification – Cont.**

#### **Indexing for Inflation—Cont.**

- **The CPI overstates the effect of inflation on taxpayers’ purchasing power because it does not take into account their ability to change purchasing patterns to mitigate the effect of price increases**
- **For this reason, many formulas for inflation indexing do not adjust for the full CPI**
- **By using “CPI - 1”, the revenue cost of indexing will be no greater than it is under current law**

#### **Update the Income Tax Act**

- **The proposed legislation adds or clarifies definitions of key income tax concepts such as “dependent”, “filing status”, “first-year resident”, “itemized deductions” and “personal exemption”**
- **Obsolete language concerning pre-1991 net operating losses, tax on lump-sum amounts, the phase-in of the capital gains deduction and apportionment of items that are automatically apportioned is deleted**



## ***Legislative Proposals Under Consideration***

### **PIT Simplification – Cont.**

#### **Update the Income Tax Act – Cont.**

- **Explicit rules are added to conform taxable years, filing status and itemization status with federal filing and to compute tax for short taxable years**
- **Conforming language changes are made throughout the Income Tax Act and language is updated to current style**

#### **Maintain Fiscal Responsibility**

- **The proposed legislation would protect future State revenues by “decoupling” from the federal standard deduction and personal exemptions amounts**
  - **For Tax Year 2009 (affecting revenue primarily in FY10), through “piggybacking” on temporary special federal standard deductions State revenues were reduced by an estimated \$6.5 million**
  - **Decoupling would mean that in the future the State would be able to make an explicit decision to adopt or not adopt such special standard deductions and incur the associated revenue loss**
- **Fiscal responsibility is also maintained by using “CPI – 1” for inflation indexing**

## *Legislative Proposals Under Consideration*

### **Motor Vehicle Legislation**

#### **Recompilation of the Motor Vehicle Code, and technical changes**

- **The Compilation Commission has agreed to proceed to re-compile the Motor Vehicle Code – as we presented to the Committee in July**
- **You may recall that we proposed a three-part process:**
  - 1. Recompile the Code – without having to introduce legislation;**
  - 2. Submit “technical” changes as a bill to the Legislature in 2010; and**
  - 3. Submit “substantive” changes that would clarify and/or correct the Code in 2011**
- **We propose to introduce legislation for the next regular session that would make the “technical” changes that are necessary**
  - **One such example is that the Code now refers to the MVD Director, the Commissioner and the Secretary to refer to the head of MVD; we will change the language to refer only to the MVD Director**
  - **Another example is that the Beautification Fee is also referred to as the Clean and Beautiful Fee**

## *Legislative Proposals Under Consideration*

### **Motor Vehicle Legislation – Cont.**

#### **Recompilation of the Motor Vehicle Code, and technical changes – Cont.**

- **As our last example, the term “invalid” is used interchangeably instead of “suspended” and “revoked” leading to confusion – because it needs to say either “suspended” or “revoked” since “invalid” is meaningless under the law**
- **There are about 30 of these “technical” fixes that need to be made – and we intend to bring these to the Committee at a future meeting**
- **If the Committee feels any of these changes are more than “technical,” we will move them to the “substantive” list to be considered in 2011**

## ***Legislative Proposals Under Consideration***

### **Motor Vehicle Legislation – Cont.**

**In addition to the Code, we are proposing today six other motor vehicle-related pieces of legislation**

#### **Allow Driver's Licenses and Identification Cards to be renewed via internet or mail**

- **This proposal is similar to part of HB-149 (Rep. Barela and Sen. Cisneros), which was endorsed by this Committee, passed the House and passed two Senate Committees, but died on the Senate floor**
- **The proposal would increase customer satisfaction and reduce wait times in MVD field offices**
- **Many other states allow renewals through the internet or by mail**
- **We will accomplish this change by eliminating the requirement that a person take a vision test every time the person applies for a license – which includes all renewals**
- **Instead, we will only require vision tests when a driver indicates that there has been a change in their ability to operate a motor vehicle, or annually for drivers over age 75**
- **This change will allow most renewals to be performed via the internet or by mail**

## ***Legislative Proposals Under Consideration***

### **Motor Vehicle Legislation – Cont.**

#### **Clarify expiration dates for Driver's Licenses of individuals under age 21**

- **This proposal is also similar to part of HB-149 (Rep. Barela and Sen. Cisneros)**
- **Currently, a Driver's License (or Identification Card) is issued to a person under age 21 for a period of four or eight years, and is in a vertical format**
- **A vertical format Driver's License (or Identification Card) is not accepted in order to purchase alcohol**
- **This creates a number of inconveniences for our customers**
- **First, if an individual obtains his first four-year license sometime between turning 16.5 years old and 17 years old, the license expires prior to the 21<sup>st</sup> birthday, so the renewal license is still in the vertical format**
- **Second, for other individuals who obtain their first four year license sometime after turning 17, but before they turn 21, they must pay for a new horizontal license when they turn 21, with no credit for the months remaining on their old license**
- **This upsets a lot of people**

## *Legislative Proposals Under Consideration*

### **Motor Vehicle Legislation – Cont.**

#### **Clarify expiration dates for Driver's Licenses of individuals under age 21 – Cont.**

- **Our proposal would solve both of these problems**
- **For individuals between 16.5 and 17 years old, MVD could issue the original license so that it would expire 30 days after the individual's 21<sup>st</sup> birthday – during which time they could come into the MVD (or renew by internet or mail if possible) to obtain a new horizontal license**
- **For individuals over 17 years old who obtain a four or eight year license, MVD would be able to issue a “replacement” license – in the horizontal format -- to the individual upon the 21<sup>st</sup> birthday and we would only charge a minimal replacement fee for this service**

## *Legislative Proposals Under Consideration*

### **Motor Vehicle Legislation – Cont.**

#### **Require a New Mexico Driver's License to be obtained within 30 days of establishing residency**

- **Current law requires certain out-of-state driver's license applicants to comply with New Mexico's ignition interlock law in order to obtain a New Mexico Driver's License**
  - **This requirement includes installation of an ignition interlock device**
- **Many out-of-state applicants simply cease the application process when they learn of these requirements, and continue to drive in New Mexico without a New Mexico license**
- **Requiring drivers to obtain a New Mexico Driver's License within 30 days of establishing residency would help insure that new residents comply with New Mexico's ignition interlock law**
- **We will consider, as necessary, any logical exemptions such as college students, military personnel and others**

## *Legislative Proposals Under Consideration*

### **Motor Vehicle Legislation – Cont.**

#### **Cancel Ignition Interlock Driver's License for noncompliance**

- **Current law allows qualifying individuals to receive an Ignition Interlock Driver's License by signing an affidavit and installing an ignition interlock device**
  - **These Licenses are valid for one year and are renewable**
- **Some individuals sign an affidavit, install an ignition interlock device, and obtain a Driver's License, then immediately remove the ignition interlock device**
- **MVD does not have authority under current law to cancel these Licenses when it is notified by the ignition interlock device vendor that the device has been improperly or prematurely removed**
- **The proposal would allow MVD to cancel a current Ignition Interlock Driver's License when it receives such notification**



## *Legislative Proposals Under Consideration*

### **Motor Vehicle Legislation – Cont.**

#### **Reform the “Drive Insured” program**

- **This proposed legislation is the same as HB-29 (Rep. Rehm), which was passed by the House, and in the Senate received unanimous votes in the Judiciary and Finance Committees before dying on the Senate floor**
- **The bill would accomplish five major things:**
- **First, the legislation directs an officer who stops a vehicle to verify, through an electronic database available to him, whether or not the vehicle is insured**
  - **If the vehicle is insured, the officer could not charge the individual with failure to carry evidence of insurance, even if the driver does not carry proof of insurance**
- **Second, the legislation gives law enforcement officers the discretion to remove a vehicle’s license plate for a violation of driving without proper liability insurance**
  - **Currently, the plate can only be removed if the uninsured vehicle is involved in an accident**
- **Third, the bill clarifies that the temporary operation sticker issued to drivers who have been cited for not maintaining proper insurance shall not create liability on the part of the officer, his department, the government he**

## *Legislative Proposals Under Consideration*

### **Motor Vehicle Legislation – Cont.**

#### **Reform the “Drive Insured” program – Cont.**

serves, or the State of New Mexico for any damages that might arise from the future operation of the vehicle

- **Fourth**, the bill provides an option that offers convenience to the driver and a work reduction for our overburdened courts
  - The new choice for the driver is to pay a “penalty assessment” misdemeanor fine of \$75, rather than go to court and face a misdemeanor penalty of up to \$300
- **Finally**, for individuals who have their vehicle registrations suspended because of a violation of the Mandatory Financial Responsibility Act, the bill increases the registration reinstatement fee paid to MVD from \$25 to \$100
  - Before this fee is imposed, individuals are provided two notices over 50 days regarding the need to purchase minimum levels of liability insurance
  - In addition, there is a waiver for indigent individuals through rules that will be adopted through a public process by MVD
- The fee increase will be appropriated to MVD as part of its five-year plan to replace its computer system, and then either to the General Fund or to MVD operations

## *Legislative Proposals Under Consideration*

### **Motor Vehicle Legislation – Cont.**

#### **Update and clarify rules for offsite sales of vehicles and RVs**

- **Current law requires MVD to administer a program for dealers to sell vehicles and RVs in offsite locations (away from their dealer location)**
  - **For example, a dealer may hold a special sale for a weekend on the parking lot of a shopping mall**
- **The language of the current statute is vague and confusing, and lacks penalties (other than revocation) for noncompliance**
- **The proposal would clarify the statutory language for this program and add intermediate penalties for noncompliance**
- **We intend to work closely with the industry over the next 60 days to draft this legislation and we will be back in November to present you a final draft**

## *Legislative Proposals Under Consideration*

### **Example of Effect of Inflation on Tax Values**

- **As an example, a single parent with one child earning \$15,000 a year would qualify for \$60 of LICTR**
- **If inflation is 3% and the parent's earnings increased by 3%, to  $\$15,000 \times 1.03 = \$15,450$  the parent's earnings have the same purchasing power but LICTR would be reduced to \$55 and its purchasing power reduced to  $\$55/1.03 = \$53.40$** 
  - **So, inflation reduced the purchasing power of this parent's LICTR by  $\$60 - \$53.40 = \$6.60$**
- **If inflation is 3% and the parent's income did not change, the purchasing power of the parent's earnings would decline to  $\$15,000/1.03 = \$14,563$  and while this parent would still qualify for \$60 of LICTR, its purchasing power would have been reduced to  $\$60/1.03 = \$58.25$** 
  - **So, inflation reduced the purchasing power of this parent's LICTR by  $\$60 - \$58.25 = \$1.75$**
- **In both instances, indexing LICTR by 3% would restore its full purchasing power to \$60 by increasing it to  $\$60 \times 1.03 = \$61.80$** 
  - **Note that indexing LICTR would not restore any of the purchasing power of the single parent whose income did not change; this parent is still hurt by inflation**